

Okmulgee County Rural Water District No. 5  
Henryetta, Oklahoma

Financial Statements and  
Reports of Independent Auditor

September 30, 2016

Audited by

SANDERS, BLEDSOE & HEWETT  
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Okmulgee County Rural Water District No. 5  
Henryetta, Oklahoma  
Board of Directors  
September 30, 2016

**Chairman**

James Mankin, Jr.

**Vice-Chairman**

Robert Sutterfield, Jr.

**Secretary/Treasurer**

Randy Stafford

**Directors**

Patricia Hodge

Wesley Vanmeter

Alfred Page

Tammie Kidwell

**Operator**

Johnny Goodman, Jr.

**Bookkeeper**

Yvonna Coulter

**P.O. Box 176  
Henryetta, Oklahoma 74437  
(918) 652-2308**

Okmulgee County Rural Water District No. 5  
Henryetta, Oklahoma  
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# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Okmulgee County Rural Water District No. 5  
Henryetta, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Okmulgee County Rural Water District No. 5 (the District), Henryetta, Oklahoma, as of and for the year ended September 30, 2016, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as

evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### **Opinions**

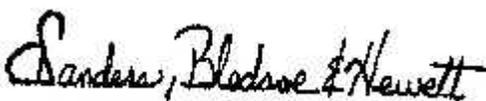
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of September 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

The District has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

November 29, 2016



**SANDERS, BLEDSOE & HEWETT**  
CERTIFIED PUBLIC ACCOUNTANTS, LLP

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Okmulgee County Rural Water District No. 5  
Henryetta, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the Okmulgee County Rural Water District No. 5 (the District), Henryetta, Oklahoma, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 29, 2016.

**Internal Control Over Financial Reporting**

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting in order to determine our auditing procedures that are appropriate for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified no deficiencies in the internal controls that we considered to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material*

*weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

November 29, 2016

Okmulgee County Rural Water District No. 5  
Henryetta, Oklahoma  
Schedule of Audit Results, Findings and Questioned Costs  
September 30, 2016

Section 1 – Summary of Auditor’s Results

1. An unmodified opinion report was issued on the financial statements.
2. The audit disclosed no significant deficiencies in the internal controls.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

NONE

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5  
Statement of Net Position  
September 30, 2016

ASSETS

Current Assets:

Cash and cash equivalents	\$ 99,128
Investments	130,000
Accounts receivable	17,636
Prepaid insurance	6,171
Total current assets	252,935

Noncurrent Assets:

Capital Assets-	
Water systems, net of depreciation	1,250,300

Total Assets	1,503,235
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LIABILITIES

Current Liabilities:

Accounts payable	10,711
Accrued interest	524
Renters deposits	4,142
Current portion of long-term debt	21,535
Total current liabilities	36,912

Noncurrent Liabilities:

Long-term debt	317,762
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Total Liabilities	354,674
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NET POSITION

Invested in capital assets, net of related debt	911,003
Restricted for debt service	34,278
Unrestricted assets	203,280
Total Net Position	\$ 1,148,561

The accompanying notes to the financial statements are an integral part of this statement

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5  
Statement of Revenues, Expenses and Changes in Net Position  
For The Year Ended September 30, 2016

Operating Revenues:	
Water sales	<u>\$ 206,759</u>
Operating Expenses:	
Water purchases	17,916
Salaries and taxes	71,848
Repairs and maintenance	14,560
Vehicle expense	4,378
Telephone	2,441
Insurance	9,321
Dues and fees	2,202
Office expenses	5,095
Professional fees	9,057
Utilities	9,923
Contract labor	1,783
Water tests	1,670
Depreciation	<u>34,288</u>
Total expenses from operations	<u>184,482</u>
Operating Income (Loss)	22,278
Non-Operating Revenues (Expenses):	
Sale of fixed assets	7,711
Interest income	1,014
Interest paid on long-term debt	<u>(13,487)</u>
Total non-operating revenues (expenses)	<u>(4,762)</u>
Change in Net Position	17,516
Total Net Position, beginning of period	<u>1,131,045</u>
Total Net Position, end of period	<u>\$ 1,148,561</u>

The accompanying notes to the financial statements are an integral part of this statement

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5  
Statement of Cash Flows  
For the Year Ended September 30, 2016

Cash Flows from Operating Activities:

Receipts from customers	\$	208,813
Payments to employees		(71,605)
Payments to vendors		(79,998)
		57,210
Net Cash Provided by Operating Activities		57,210

Cash Flows from Capital and Related Financing Activities:

Sale of fixed assets		7,711
Capital assets purchased		(62,800)
Principal paid on long-term debt		(20,774)
Interest paid on long-term debt		(13,486)
		(89,349)
Net Cash Provided by (used in) Financing Activities		(89,349)

Cash Flows from Investing Activities:

Interest earned on investments		1,014
		1,014
Net Cash Provided by (used in) Investing Activities		1,014

Net increase (decrease) in cash		(31,125)
Cash and cash equivalents, beginning of period		260,253
Cash and cash equivalents, end of period	\$	229,128

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating Income	\$	22,278
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation Expense		34,288
Change in assets and liabilities:		
(Increase) decrease in accounts receivable		2,054
(Increase) decrease in prepaid insurance		(1,376)
Increase (decrease) in accounts payable		16
Increase (decrease) in accrued interest		(17)
Increase (decrease) in renters deposits		(33)
		57,210
Net cash provided by operating activities	\$	57,210

The accompanying notes to the financial statements are an integral part of this statement

**OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2016**

**Note 1 – Significant Accounting Policies**

Nature of Organization

The Okmulgee County Rural Water District No. 5 (the District) was created under the provisions of Title 82 of Oklahoma Statutes, Section 1324.1 – 1324.35 and the Laws of the State of Oklahoma. The purpose of this District is to provide water services to users.

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District’s accounts at September 30, 2016 and are comprised as follows:

American Exchange Bank, Henryetta, OK-	
Reserve savings account	\$ 25,214
Construction account	100
Operating account	<u>73,614</u>
Total	<u>\$ 98,928</u>

The District’s cash deposits at September 30, 2016, are categorized to give an indication of the level of risk assumed by the district at year-end.

Investments

The District had the following investments at September 30, 2016:

American Exchange Bank, Henryetta, OK-	
Certificate of deposit No. 13960, due 11-24-16, @ .75%	\$ 10,000
Certificate of deposit No. 14813, due 11-13-16, @ .75%	5,000
Certificate of deposit No. 18709, due 11-8-16, @ .75%	5,000
Certificate of deposit No. 20722, due 3-7-16, @ .55%	50,000
Certificate of deposit No. 19450, due 1-8-17, @ .55%	50,000
Certificate of deposit No. 20399, due 10-4-16, @ .75%	5,000
Certificate of deposit No. 18035, due 1-4-17, @ .55%	<u>5,000</u>
Total	<u>\$ 130,000</u>

**OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2016**

**Note 1 – Significant Accounting Policies – cont’d**

Accounts Receivable

Billings for accounts receivable at September 30, 2016 were \$17,636. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements.

Fixed Assets

Any items purchased or constructed in excess of \$1,000 and a useful life of over two years is considered a fixed asset by the District, and will be depreciated over a specific time.

Capital (fixed) asset information for the 2015-16 fiscal year is as follows:

	<u>Balance at Oct. 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at Sep. 30, 2016</u>
Water distribution system	\$ 1,786,709			1,786,709
Buildings	25,574			25,574
Equipment	28,128	62,800	(19,945)	70,983
Total depreciated capital assets	<u>1,840,411</u>	<u>62,800</u>	<u>(19,945)</u>	<u>1,883,266</u>
Less accumulated depreciation for:				
Water distribution system	577,922	29,780		607,702
Buildings	14,919	426		15,345
Equipment	25,782	4,082	(19,945)	9,919
Total accumulated depreciation	<u>618,623</u>	<u>34,288</u>	<u>(19,945)</u>	<u>632,966</u>
Capital assets, net	<u>\$ 1,221,788</u>	<u>28,512</u>	<u>-</u>	<u>1,250,300</u>

Inventories

The District does not include an inventory amount on its financial statements. All items purchased for inventory are expensed immediately.

**OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2016**

**Note 1 – Significant Accounting Policies – cont’d**

Federal Income Tax

The District is exempt from federal and state income taxes.

Collateral Pledged

Deposit Categories of Credit Risk

- (A) Insured by Federal Deposit Insurance
- (B) Collateralized with securities held by the pledging financial institution’s trust department or agent in the District’s name
- (C) Uncollateralized

Deposit Categories of Credit Risk:

	Category			Bank Balance	Carrying Amount
	(A)	(B)	(C)		
Cash	\$ 100,366			100,366	98,928
Investments	130,000			130,000	130,000
Totals	\$ 230,366	0	0	230,366	228,928

**Note 2 – Long-Term Debt**

Notes payable consist of three notes to the Office of Rural Development and one note to the Okmulgee County Industrial Authority.

The following is a summary of the long-term debt transactions of the District for the year ended September 30, 2016:

	Notes Payable
Balance, October 1, 2015	\$ 360,071
Additions/ Retirements	(20,774)
Balance, September 30, 2016	\$ 339,297

**OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEAR ENDED SEPTEMBER 30, 2016**

**Note 2 – Long-Term Debt – cont’d**

The notes payable at September 30<sup>th</sup>, are detailed as follows:

Note No. 91-04, Rural Economic & Community Development, issued for \$150,000, dated 6-25-80, at 5.00% interest due in monthly installments of \$737	\$ 23,502
Note No. 91-06, Rural Economic & Community Development, issued for \$65,000, dated 6-25-80, at 5.00% interest due in monthly installments of \$320	9,529
Note No. 91-07, Rural Economic & Community Development, issued for \$305,300, dated 5-14-04, at 4.375% interest, due in monthly installments of \$1,362	261,641
Note to Okmulgee County Industrial Authority, CDBG, issued for \$105,000, dated 5-28-02, at 0% interest, due in monthly installments of \$438	<u>44,625</u>
Total	339,297
Less: Current maturities of long-term debt	<u>(21,535)</u>
Total Long-Term Debt	<u><u>\$ 317,762</u></u>

The scheduled maturities for the notes and lease payments are detailed as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 21,535	12,743	34,278
2018	22,334	11,945	34,279
2019	20,579	11,113	31,692
2020	10,946	10,648	21,594
2021-25	56,152	49,192	105,344
2026-30	40,465	41,255	81,720
2531-35	50,339	31,380	81,719
2036-40	62,624	19,096	81,720
2041-44	<u>54,323</u>	<u>4,487</u>	<u>58,810</u>
Totals	<u><u>\$ 339,297</u></u>	<u><u>191,859</u></u>	<u><u>531,156</u></u>

**OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEAR ENDED SEPTEMBER 30, 2016**

**Note 2 – Long-Term Debt – cont'd**

Debt Service Reserve

In accordance with the loan agreement with Rural Development, the District is required to build and maintain a Debt Service Reserve Fund with a balance of no less than \$29,098 as per the Trust Agreement, which is equal to 12 months payments on the notes. The total amount of the restricted assets represents a portion of the Certificates of deposit held at American Exchange Bank for the purpose of making future principal and interest payments. The reserve balance at the end of September 30, 2016 was \$29,098.

**Note 3 – Accumulated Unpaid Vacation and Sick Pay**

At September 30, 2016, no determination of the aggregate dollar value of vacation and sick pay had been made.

**Note 4 – Subsequent Events**

The District was approved for two grants, one from the Oklahoma Water Resources Board (OWRB) in the amount of \$99,900 and the other from the Oklahoma Department of Commerce (ODOC) in the amount of \$405,980. As of November 29, 2016, no money has been received from these grants but a separate bank account was reactivated and will be used by the District for these funds.

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5  
Balance Sheet  
September 30, 2016

<u>ASSETS</u>	September 30,	
	2016	(memo only) 2015
Current Assets:		
Cash	\$ 99,128	130,253
Investments	130,000	130,000
Accounts receivable	17,636	19,690
Prepaid insurance	6,171	4,795
Total current assets	252,935	284,738
Fixed Assets:		
Water system	1,883,266	1,840,411
Less: accumulated depreciation	(632,966)	(618,623)
Total fixed assets (net)	1,250,300	1,221,788
Total Assets	\$ 1,503,235	1,506,526
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 10,711	10,694
Accrued interest	524	541
Renters deposits	4,142	4,175
Current maturities of long-term debt	21,535	20,772
Total current liabilities	36,912	36,182
Long-Term Debt, less current maturities:		
Notes payable	317,762	339,299
Total Liabilities	354,674	375,481
Fund Equity:		
Retained earnings	1,148,561	1,131,045
Total Liabilities and Fund Equity	\$ 1,503,235	1,506,526

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5  
Statement of Revenue, Expenses and Changes in Retained Earnings  
For The Year Ended September 30, 2016

	2015-16	(memo only) 2014-15
	<u>2015-16</u>	<u>2014-15</u>
Revenue from Operations:		
Water sales	\$ 203,173	203,826
Membership fees/taps	3,250	3,900
Other income	336	0
Total revenue from operations	<u>206,759</u>	<u>207,726</u>
Expenses from Operations:		
Water purchases	17,916	27,486
Salaries and taxes	71,848	60,044
Repairs and maintenance	14,560	22,369
Vehicle expense	4,378	6,865
Telephone	2,441	3,824
Insurance	9,321	5,776
Dues and fees	2,202	2,692
Office expenses	5,095	4,330
Professional and consulting fees	9,057	2,840
Utilities	9,923	10,354
Contract labor	1,783	7,284
Water Tests	1,670	3,763
Depreciation	34,288	32,627
Total expenses from operations	<u>184,482</u>	<u>190,254</u>
Net Income (Loss) from Operations	22,278	17,472
Non-operating revenues:		
Sale of fixed assets	7,711	0
Interest earnings	1,014	1,003
Total non-operating revenues	<u>8,725</u>	<u>1,003</u>
Non-operating expenses:		
Interest on long-term debt	<u>(13,487)</u>	<u>(14,215)</u>
Net Income (Loss)	17,516	4,260
Retained earnings, beginning of period	<u>1,131,045</u>	<u>1,126,785</u>
Retained earnings, end of period	<u>\$ 1,148,561</u>	<u>1,131,045</u>